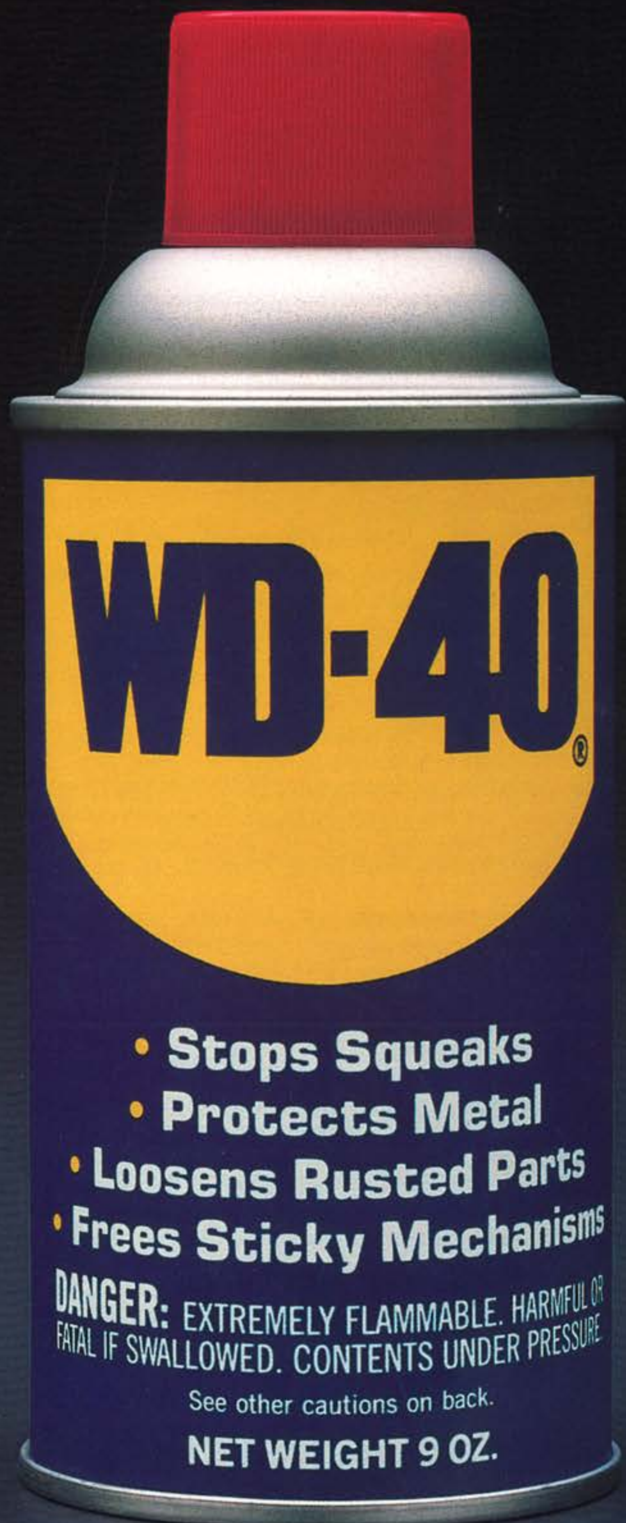
# WD-40 COMPANY 1988 ANNUAL REPORT

Year Ending August 31



## Highlights of the Three Years Ended August 31

| | 1988 | 1987 | 1986 |
|---|---|---|---|
| Net Sales | $80,005,000 | $70,879,000 | $69,384,000 |
| Net Income | $15,548,000 | $11,010,000 | $11,570,000 |
| Earnings Per Share | $2.06 | $1.46 | $1.54 |
| Dividends Per Share | $1.63 | $1.47 | $1.04 |
| Average Number of Shares Outstanding | 7,527,507 | 7,516,652 | 7,503,679 |
| Shares Outstanding | 7,544,368 | 7,522,868 | 7,504,051 |
| Number of Shareholders | 2,883 | 2,796 | 2,264 |
| Number of Employees | 79 | 61 | 56 |

Highlights Fiscal 1988:

- Current Ratio: 6.1 to 1
- Debt: None
- Receivables to Net Sales: 17.9%
- Inventories to Net Sales: 4.4%
- Net Sales per Employee: $1,012,000
- Net Income to Average Net Worth: 44.9%

## Letter to the Shareholders

October 12, 1988

To Our Shareholders:

I'm delighted to report that your Company celebrated it's thirty-fifth birthday with record sales and earnings. Sales for fiscal year 1988 were $80,005,000, up 12.9% from the previous year. Net income reached $15,548,000, up 41.0% from fiscal year 1987. On a per share basis earnings were $2.06 versus $1.46.

Cash dividends for the year were $1.63 per share, up from $1.47 the previous year. This is in line with the Company's policy of returning to the shareholders funds not needed for smooth operation of the Company.

The strengthening of the British pound and the Canadian dollar relative to the U.S. dollar during the year magnified this year's sales and earnings figures of the United Kingdom and Canadian subsidiaries relative to last year and carried through to the consolidated figures.

Most of the sales gain came from our foreign subsidiaries, however, the parent company provided the lion's share of the income increase. The parent company benefited from the recovery of $950,000 from the California Insurance Guarantee Association, which was a loss of an equal amount the previous year resulting from the payment of a legal settlement for an insolvent insurance company. The effective tax rate of the U.S. corporation dropping from 51.0% to 39.2% also helped the bottom line.

We expect to spur sales in the United States by having better control over field sales activities through the establishment of our own direct sales force. Five regional offices will be staffed and fully operational November 1st. The cost of maintaining and supporting our own sales force will be offset by the elimination of commissions on sales.

The Company has capitalized on its unique marketing knowledge of WD-40 by establishing subsidiaries in England, Canada and Australia, and exporting this knowledge to assist them in developing their markets. The results have been most gratifying.

Operations of our United Kingdom subsidiary were right on plan. Basically this entity is responsible for developing business in three key areas: England, Europe and the Middle East. In England significant progress has and is being made in terms of broadening the distribution of WD-40. This will assist in opening the minds of both the trade and consumers as to the many uses of the product beyond automobiles and lead to solid sales growth.

Our European distributors now realize the potential of WD-40 and are professionally executing ambitious marketing programs under the guidance of our personnel. The sales increases reflect the results of this effort.

Sales to the Middle East made good advancements where WD-40 remains the unquestioned brand leader.

Canadian sales were also on plan and reflected improved penetration of the French speaking area of the country.

Our Australian subsidiary, with only eight months of operation, showed a modest profit for the year. In addition to marketing in Australia and New Zealand, this subsidiary is also responsible for developing business in Southeast Asia and the Far East.

Our search for a worthy companion product to world class WD-40 has not unearthed a strong candidate. We have shunned the temptation to take a product that might provide immediate excitement but really doesn't have the attributes of being a long term contributor to the Company.

Our objectives for Fiscal Year 1989 are once again to set new sales and earnings records.

Sincerely,

John S. Barry,
President

## Corporate Objectives

Management is dedicated to the objectives of increasing corporate earnings and dividends by winning the end-users' brand loyalty for your Company's only product, WD-40. The Company would consider adding another product if it is determined that the Company can make a decisive contribution to that product's growth in the area of marketing-distribution. The product would, of course, have to have an attractive profit potential.

## The Product

WD-40 is the cornerstone of your Company. It is a chemical-petroleum based maintenance product consumed by end-users in homes, factories, garages, farms and offices throughout the world. The well-established growth pattern of the demand for WD-40 attests to customer satisfaction with its performance.

WD-40 is typically procured for a specific application and, because of its unusual versatility, finds its way into many other uses. This broad range of uses provides your single-product Company with surprising diversification from a marketing point-of-view – it has little dependency on any one or even any group of end-users.

## Markets

Because of the wide range of uses of WD-40 by diverse groups of end-users there are a multitude of markets for the product that must be accessed by many trade channels, including automotive, hardware, drug, grocery, industrial and farm. WD-40 is a horizontal product cutting across numerous trade channels. This same pattern holds in foreign markets.

While domestic sales account for about three quarters of the total, foreign sales are expected to capture a larger share of the total because of their less developed markets.

## Competition

Over the years the high visibility of our success has spawned envy and has lured literally hundreds of imitators into the marketplace. WD-40's strong brand loyalty has resulted in our withstanding these attempted intrusions even when launched by billion-dollar companies. In a real sense, the true competition is every product that is competing for shelf space be it anti-freeze, light bulbs or razor blades. To survive and grow our promotional programs must be attractive enough to the trade to win retail display space to capitalize on the impulse nature of WD-40.

## Operational Overview

While your Company is technically a manufacturer, it is really a marketer. Such being the case, it is organized to focus intensive management attention on the critical success areas of: (1) sales policies, (2) marketing plan formulation, and (3) implementation of marketing plans. Other vital functions handled internally are: order handling, credit, WD-40 concentrate formulation, and quality control.

WD-40 concentrate for North America is formulated in San Diego and shipped by railcar or tank wagon to contract packagers in Los Angeles, Texas, Georgia, Massachusetts, Wisconsin, and Toronto, Canada. These independent subcontractors package WD-40 to rigid specifications and, upon order from your Company, ship ready-to-sell WD-40 to our customers in their respective areas via common carrier. The packagers have no responsibility for marketing WD-40.

The San Diego facility also oversees providing distributors and licensees in Mexico, the Caribbean, Central America, South America and the Pacific Basin with finished product or concentrate.

Europe, the Middle Ease and Africa are served from our European headquarters located in Milton Keynes, England. WD-40 concentrate is formulated there and converted to ready-to-sell WD-40 by three English contract packagers. The language and labeling standards of each of the many countries served by this operation has resulted in the production of over a dozen different WD-40 labels.

Our Australian subsidiary, which became operational January 1, 1988, is responsible for marketing WD-40 in Australia, New Zealand, Southeast Asia and the Far East. Billings for sales outside of Australia and New Zealand are made by the parent company.

## Report of Independent Accountants

*Price Waterhouse*

October 4, 1988

To the Board of Directors and Shareholders
of WD-40 Company

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of WD-40 Company and its subsidiaries at August 31, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 1988, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse
San Diego, California

## WD-40 Company Consolidated Statement of Income

| | Year ended August 31 | | |
|---|---|---|---|
| | 1988 | 1987 | 1986 |
| Net Sales | $80,005,000 | $70,879,000 | $69,384,000 |
| Interest, royalty and other income | 1,235,000 | 988,000 | 1,259,000 |
| | 81,240,000 | 71,867,000 | 70,643,000 |
| Cost and expenses: | | | |
| Cost of product sold | 33,931,000 | 30,185,000 | 29,370,000 |
| Selling, general and administrative | 14,096,000 | 13,645,000 | 12,030,000 |
| Advertising and sales promotion | 7,795,000 | 7,364,000 | 6,590,000 |
| | 55,822,000 | 51,194,000 | 47,990,000 |
| Income before income taxes | 25,418,000 | 20,673,000 | 22,653,000 |
| Provision for income taxes: | | | |
| Federal | 6,430,000 | 7,252,000 | 8,838,000 |
| State | 1,400,000 | 1,286,000 | 1,510,000 |
| Foreign | 2,040,000 | 1,125,000 | 735,000 |
| | 9,870,000 | 9,663,000 | 11,083,000 |
| Net income | $15,548,000 | $11,010,000 | $11,570,000 |
| Earnings per share | $2.06 | $1.46 | $1.54 |
| Average number of shares outstanding | 7,527,507 | 7,516,652 | 7,503,679 |

See accompanying notes to consolidated financial statements.

## WD-40 Company Consolidated Balance Sheet

| | August 31 1988 | August 31 1987 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash, including certificates of deposit of $17,923,000 and $15,009,000 | $21,641,000 | $18,042,000 |
| Accounts receivable, less allowance for cash discounts and doubtful accounts of $458,000 and $314,000 | 14,281,000 | 14,592,000 |
| Inventories: | | |
| Finished goods | 3,353,000 | 2,556,000 |
| Raw materials | 217,000 | 265,000 |
| | 3,570,000 | 2,821,000 |
| Prepaid taxes and expenses | 1,159,000 | 1,286,000 |
| Total current assets | 40,651,000 | 36,741,000 |
| Property, plant and equipment at cost: | | |
| Land | 254,000 | 254,000 |
| Buildings and improvements | 1,395,000 | 1,395,000 |
| Machinery and equipment | 1,846,000 | 1,479,000 |
| | 3,495,000 | 3,128,000 |
| Less: accumulated depreciation | (1,235,000) | (991,000) |
| | 2,260,000 | 2,137,000 |
| Other assets | 401,000 | 271,000 |
| | $43,312,000 | $39,149,000 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 2,450,000 | $ 3,717,000 |
| Accrued payroll and related expenses | 1,506,000 | 1,112,000 |
| Income taxes payable | 2,652,000 | 1,318,000 |
| Total current liabilities | 6,608,000 | 6,147,000 |
| Deferred income taxes | 214,000 | 225,000 |
| Contingencies (Note 5) | | |
| Shareholders' equity: | | |
| Common stock, no par value, 9,000,000 shares authorized – shares issued and outstanding of 7,544,368 and 7,522,868 | 2,390,000 | 1,957,000 |
| Paid-in capital | 121,000 | 121,000 |
| Retained earnings | 34,104,000 | 30,826,000 |
| Cumulative foreign currency translation adjustment | (125,000) | (127,000) |
| Total shareholders' equity | 36,490,000 | 32,777,000 |
| | $43,312,000 | $39,149,000 |

See accompanying notes to consolidated financial statements.

## WD-40 Company Consolidated Statement of Shareholders' Equity

| | Common stock Shares | Common stock Amount | Paid-in Capital | Retained Earnings | Cumulative Translation Adjustment |
|---|---|---|---|---|---|
| Balance at August 31, 1985 | 7,500,721 | $1,714,000 | $121,000 | $27,103,000 | ($356,000) |
| Issuance of common stock | 3,330 | 36,000 | | | |
| Cash dividends | | | | (7,804,000) | |
| Change in cumulative translation adjustment | | | | | 87,000 |
| Net income | | | | 11,570,000 | |
| Balance at August 31, 1986 | 7,504,051 | 1,750,000 | 121,000 | 30,869,000 | (269,000) |
| Issuance of common stock, net of 11,835 shares exchanged in stock option exercise | 18,817 | 207,000 | | | |
| Cash dividends | | | | (11,053,000) | |
| Change in cumulative translation adjustment | | | | | 142,000 |
| Net income | | | | 11,010,000 | |
| Balance at August 31, 1987 | 7,522,868 | 1,957,000 | 121,000 | 30,826,000 | (127,000) |
| Issuance of common stock | 21,500 | 433,000 | | | |
| Cash dividends | | | | (12,270,000) | |
| Change in cumulative translation adjustment | | | | | 2,000 |
| Net income | | | | 15,548,000 | |
| Balance at August 31, 1988 | 7,544,368 | $2,390,000 | $121,000 | $34,104,000 | ($125,000) |

See accompanying notes to consolidated financial statements.

## WD-40 Company Consolidated Statement of Cash Flows

| | Year ended August 31 | | |
|---|---|---|---|
| | 1988 | 1987 | 1986 |
| Cash flows from operating activities: | | | |
| Net income | $15,548,000 | $11,010,000 | $11,570,000 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 198,000 | 244,000 | 200,000 |
| Provisions for losses on accounts receivable and for cash discounts | 144,000 | 31,000 | 114,000 |
| Change in assets and liabilities: | | | |
| Decrease (increase) in accounts receivable | 167,000 | (1,057,000) | (1,279,000) |
| (Increase) decrease in inventory | (749,000) | (370,000) | 104,000 |
| Decrease (increase) in prepaids | 127,000 | 124,000 | (626,000) |
| (Increase) in other assets | (130,000) | (114,000) | (88,000) |
| (Increase) in current deferred tax asset | (15,000) | | (8,000) |
| (Decrease) increase in accounts payable and accrued expenses | (873,000) | 1,148,000 | 885,000 |
| Increase (decrease) in income tax payable | 1,334,000 | (863,000) | 721,000 |
| (Decrease) increase in long-term deferred tax liability | (11,000) | 52,000 | 140,000 |
| Equity adjustment for foreign currency translation | 2,000 | 142,000 | 87,000 |
| Net cash provided by operating activities | 15,742,000 | 10,347,000 | 11,820,000 |
| Cash flows from investing activities: | | | |
| Proceeds from sale of equipment | 65,000 | 82,000 | 8,000 |
| Capital expenditures | (371,000) | (363,000) | (292,000) |
| Net cash used in investing activities | (306,000) | (281,000) | (284,000) |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of common stock | 433,000 | 207,000 | 36,000 |
| Dividends paid | (12,270,000) | (11,053,000) | (7,804,000) |
| Net cash used by financing activities | (11,837,000) | (10,846,000) | (7,768,000) |
| Net increase (decrease) in cash and cash equivalents | 3,599,000 | (780,000) | 3,768,000 |
| Cash and cash equivalents at beginning of year | 18,042,000 | 18,822,000 | 15,054,000 |
| Cash and cash equivalents at end of year | $21,641,000 | $18,042,000 | $18,822,000 |

See accompanying notes to consolidated financial statements.

## Note 1 — Summary of Accounting Policies:

*Principles of Consolidation*

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, WD-40 Products (Canada) Limited, WD-40 Company Ltd. (UK) and WD-40 Company PTY, Ltd. (Australia). All significant intercompany transactions have been eliminated.

*Inventories*

Inventories are stated at the lower of average cost or market.

*Depreciation*

Depreciation of plant and equipment has been computed using straight-line and accelerated methods, based upon estimated useful lives of thirty to forty years for the plant and three to fifteen years for machinery and equipment.

*Foreign Currency Translation*

The accounts of the Company's foreign subsidiaries have been translated into United States dollars at appropriate rates of exchange. Cumulative translation gains or losses are recorded as a separate component of shareholders' equity. Gains or losses resulting from foreign currency transactions (transactions denominated in a currency other than the entity's local currency) are included in the consolidated statement of income.

*Earnings Per Share*

Earnings per share are based upon the weighted average number of shares outstanding during each year, increased by the effect of dilutive stock options, when the dilutive effect is in excess of 3 percent of earnings per share, using the treasury stock method.

*Income Taxes*

Current income tax expense is the amount of income taxes expected to be payable for the current year. A deferred income tax liability or asset is established for the expected future tax consequences resulting from differences in the financial reporting and tax bases of assets and liabilities. Deferred income tax expense is the net change during the year in the deferred income tax liability or asset. The Company's provision for income taxes is accounted for in accordance with Statement of Financial Accounting Standards No. 96 (SFAS 96) in fiscal 1988 and in accordance with Accounting Principles Board Opinion No. 11 in fiscal 1987 and 1986. The Company's adoption of SFAS 96 in fiscal 1988 did not have a material effect on results of operations or financial position and is not expected to have a material effect on future results of operation or financial position (Note 3).

*Statement of Cash Flows*

The Company adopted the Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows" and accordingly, has restated the 1987 and 1986 Statement of Changes in Financial Position to conform to the 1988 presentation.

## Note 2 — Business Segment and Foreign Operations:

The Company operates in one business segment – the manufacture and sale of a multi-purpose lubricant through chain stores, automotive parts outlets and industrial distributors and suppliers.

Information regarding the Company's operations is summarized below. WD-40 Company (U.S.) amounts include all domestic sales, as well as sales to South America and the Pacific Basin, except for Australia and New Zealand. WD-40 Company Ltd. (U.K.) amounts include sales to Europe, the Middle East and Africa. WD-40 Products (Canada) Ltd. and WD-40 Company PTY, Ltd. (Australia) are included in other foreign subsidiaries. Substantially all sales by these operations are to customers within Canada and Australia and New Zealand, respectively.

| | Year ended August 31 | | |
|---|---|---|---|
| | 1988 | 1987 | 1986 |
| **Net sales:** | | | |
| WD-40 Company (U.S.) | $60,228,000 | $56,346,000 | $57,894,000 |
| WD-40 Company Ltd. (U.K.) | 13,534,000 | 9,697,000 | 6,799,000 |
| Other foreign subsidiaries | 7,671,000 | 5,089,000 | 4,876,000 |
| Eliminations | (1,428,000) | (253,000) | (185,000) |
| | $80,005,000 | $70,879,000 | $69,384,000 |
| **Operating profit (loss):** | | | |
| WD-40 Company (U.S.) | $18,728,000 | $15,792,000 | $18,185,000 |
| WD-40 Company Ltd. (U.K.) | 4,062,000 | 2,972,000 | 2,084,000 |
| Other foreign subsidiaries | 1,393,000 | 922,000 | 1,125,000 |
| Interest, royalty and other income | 1,235,000 | 987,000 | 1,259,000 |
| Income before income taxes | $25,418,000 | $20,673,000 | $22,653,000 |
| **Identifiable assets:** | | | |
| WD-40 Company (U.S.) | $32,190,000 | $30,913,000 | $31,392,000 |
| WD-40 Company Ltd. (U.K.) | 7,896,000 | 6,439,000 | 4,424,000 |
| Other foreign subsidiaries | 3,226,000 | 1,797,000 | 2,690,000 |
| | $43,312,000 | $39,149,000 | $38,506,000 |

## Note 3 — Income Taxes:

Effective August 31, 1988, the Company adopted, retroactive to September 1, 1987, the Financial Accounting Standards Board Statement No. 96 (SFAS 96), "Accounting for Income Taxes", thereby applying the liability method of accounting for income taxes. The Company's adoption of SFAS 96 did not have a material effect on results of operations or financial position and is not expected to have a material effect on future results of operation or financial position.

Provisions for income taxes on earnings are as follows:

| | Year ended August 31 | | |
|---|---|---|---|
| | 1988 | 1987 | 1986 |
| **Current Tax Provision:** | | | |
| United States | $ 6,552,000 | $ 7,159,000 | $ 8,831,000 |
| Foreign | 1,929,000 | 1,166,000 | 878,000 |
| State | 1,415,000 | 1,286,000 | 1,505,000 |
| Total current | 9,896,000 | 9,611,000 | 11,214,000 |
| **Deferred Tax Provision (Benefit):** | | | |
| United States | (122,000) | 93,000 | 7,000 |
| Foreign | 111,000 | (41,000) | (143,000) |
| State | (15,000) | | 5,000 |
| Total deferred | (26,000) | 52,000 | (131,000) |
| Total provision for income taxes | $ 9,870,000 | $ 9,663,000 | $11,083,000 |

The major temporary differences that gave rise to deferred taxes are; the state tax provision, allowance for cash discounts and doubtful accounts and depreciation. The deferred tax assets (liabilities) are reflected in the consolidated balance sheet as follows:

| | Year ended August 31 | | |
|---|---|---|---|
| | 1988 | 1987 | 1986 |
| Current assets | $ 660,000 | $ 645,000 | $ 645,000 |
| Non-current liabilities | (214,000) | (225,000) | (173,000) |
| | $ 446,000 | $ 420,000 | $ 472,000 |

A reconciliation of the provision for income taxes to the amount computed by applying the statutory federal income tax rate to income before income taxes follows:

| | Year ended August 31 | | |
|---|---|---|---|
| | 1988 | 1987 | 1986 |
| Amount computed at U.S. statutory federal rate | $8,558,000 | $9,075,000 | $10,420,000 |
| State income taxes, net of federal benefit | 929,000 | 721,000 | 815,000 |
| Net effect of foreign income taxes effective rates (lower) higher than U.S. statutory federal rate | 353,000 | (133,000) | (152,000) |
| Other | 30,000 | | |
| | $9,870,000 | $9,663,000 | $11,083,000 |

**Note 4 — Stock Options:**

The Company has an Incentive Stock Option Plan whereby the Board of Directors may grant officers and key employees options to purchase an aggregate of not more than 240,000 shares of the Company's common stock at a price not less than 100 percent of the fair market value of the stock at the date of grant. Options are exercisable one year after grant and may not be granted for terms in excess of ten years.

At August 31, 1988, options for 55,631 shares were exercisable and 75,102 shares were available for future grants.

A summary of the changes in options outstanding under the Plan during the three years ended August 31, 1988 is as follows:

| | Number of shares | Option price per share |
|---|---|---|
| Outstanding at August 31, 1985 | 63,340 | $10.83-$21.38 |
| Options granted | 33,390 | $19.50 |
| Options exercised | (3,330) | $10.83-$19.50 |
| Outstanding at August 31, 1986 | 93,400 | $10.83-$21.38 |
| Options granted | 29,478 | $29.50 |
| Options exercised | (30,652) | $10.83-$21.38 |
| Options canceled | (4,695) | $19.50-$21.38 |
| Outstanding at August 31, 1987 | 87,531 | $19.50-$29.50 |
| Options granted | 31,200 | $34.25 |
| Options exercised | (21,500) | $19.50-$21.38 |
| Options canceled | (10,400) | $19.50-$34.25 |
| Outstanding at August 31, 1988 | 86,831 | $19.50-$34.25 |

Pursuant to provisions of the Plan, during the year ended August 31, 1987, 11,835 shares were exchanged at fair market value in lieu of cash in the exercise of stock options.

On December 8, 1986, the Board of Directors granted 1,722 non-qualified options (not granted under the Incentive Stock Option Plan) to two officers of the Company at an option price equal to the market price at the date of issuance of $29.50.

**Note 5 — Contingencies:**

The Company is party to various claims, legal actions and complaints arising in the ordinary course of business. In the opinion of management, all such matters are adequately covered by insurance or will not have a materially adverse effect on the Company's financial position.

During the second quarter of the year ended August 31, 1987, the Company recorded a charge of $950,000, included in selling, general and administrative expense, resulting from a legal settlement. This matter was covered by insurance; however, the insurance carrier was in receivership and was unable to pay. The Company received full reimbursement of this amount from the California Insurance Guarantee Association during the first and second quarters of the current year, which is credited in selling, general and administrative expense.

**Note 6 — Employee Benefit Plans:**

The Company has a Profit Sharing Plan for the benefit of its regular full-time employees. The Plan provides for annual contributions into a trust which are based upon an annual earnings formula, or more, as approved by the Board of Directors, but which may not exceed the amount deductible for income tax purposes. The Plan may be amended or discontinued at any time by the Company. Profit sharing expense for 1988, 1987 and 1986 approximated $388,000, $276,000 and $185,000, respectively.

The Company has a Salary Deferral Employee Stock Ownership Plan whereby regular full-time employees who have completed three years of service can defer a portion of their income through contributions to a trust. The Plan provides for Company contributions to the trust, as approved by the Board of Directors, equal to fifty percent or more of the compensation deferred by employees, but not in excess of the amount deductible for income tax purposes. Employee and Company contributions to the trust are invested in the Company's common stock. The Plan may be amended or discontinued at any time by the Company. Company contribution expense for 1988, 1987 and 1986 was approximately $14,000, $16,000 and $13,000, respectively.

**Quarterly Financial Information** (Unaudited)

The following table sets forth certain unaudited quarterly financial information for the two years ended August 31, 1988.

| Quarter ended: | Net Sales | Gross Profit | Net Income | Earnings Per Share |
|---|---|---|---|---|
| November 30, 1986 | $16,497,000 | $ 9,426,000 | $ 2,536,000 | $ .34 |
| February 28, 1987 | 19,067,000 | 11,209,000 | 2,642,000 | .35 |
| May 31, 1987 | 17,163,000 | 9,973,000 | 2,315,000 | .31 |
| August 31, 1987 | 18,152,000 | 10,086,000 | 3,517,000 | .46 |
| | $70,879,000 | $40,694,000 | $11,010,000 | $1.46 |
| November 30, 1987 | $18,096,000 | $10,376,000 | $ 3,634,000 | $ .48 |
| February 29, 1988 | 21,258,000 | 12,324,000 | 4,131,000 | .55 |
| May 31, 1988 | 20,058,000 | 11,435,000 | 3,641,000 | .49 |
| August 31, 1988 | 20,593,000 | 11,939,000 | 4,142,000 | .54 |
| | $80,005,000 | $46,074,000 | $15,548,000 | $2.06 |

**Stock Information**

| | Fiscal 1988 | | | Fiscal 1987 | | |
|---|---|---|---|---|---|---|
| Period: | High | Low | Dividend | High | Low | Dividend |
| First Quarter | $36¾ | $23 | $.33 | $28¾ | $23¼ | $.28 |
| Second Quarter | 29½ | 23 | .35 | 42¼ | 28 | .53 |
| Third Quarter | 32¾ | 26¾ | .60 | 46¼ | 29¼ | .33 |
| Fourth Quarter | 32 | 28¾ | .35 | 39 | 29½ | .33 |

The high and low sales prices are as quoted in the Wall Street Journal.

## Results of Operations

The operations summarized in Note 2 to the consolidated financial statement are discussed below.

*WD-40 Company (U.S.)*

Sales and operating profit in 1988 increased 6.9% and 18.6%, respectively, compared with 1987. The operating profit increase was greater than the increase in sales chiefly as a result of the $950,000 recovery from the California Insurance Guarantee Association, which was a loss of an equal amount of the previous year resulting from the payment of a legal settlement for an insolvent insurance company.

Sales and operating profit in 1987 decreased 2.7% and 13.2%, respectively, compared with 1986. The decrease in sales was primarily attributable to the disruption in the retail trade caused by mergers, liquidations, leveraged buyouts, bankruptcies and changing distribution patterns. In addition to the effect of the decrease in sales, operating profit was seriously impacted by the $950,000 charge explained in the previous paragraph.

*WD-40 Company Ltd. (U.K.)*

Sales and operating profit in 1988 increased 39.5% and 36.6%, respectively, compared with 1987. The average exchange rate of the British pound versus the U.S. dollar for fiscal 1988 strengthened 14.7%, magnifying the increase.

Sales and operating income both rose 42.6% from 1986 to 1987 as the U.K. subsidiary broadened distribution in England and established new distribution in Europe. The Middle East also contributed to the growth. Once again, the pound advanced against the U.S. dollar.

*Other Foreign Subsidiaries*

Sales and operating income in 1988 rose 50.7% and 51.1%, respectively, compared with 1987. Canada experienced good sales and earnings growth and also benefited from a stronger currency against the U.S. dollar. In addition, our Australian subsidiary came on stream January 1, 1988.

Canadian sales went up slightly in 1987 over 1986 but operating income decreased as a result of increased expenses across the board in anticipation of sales that did not materialize.

## Liquidity and Capital Resources

The Company's primary source of liquidity is net income provided by operations. Cash dividends have been increased over the past three years from $7,804,000 in 1986, $11,053,000 in 1987 to $12,270,000 in 1988. The year end current ratio of six to one and the debt-free balance sheet reflects a healthy financial status. We anticipate investing approximately $700,000 during fiscal 1989 for support equipment for our direct sales force, which will be staffed and fully operational by November 1, 1988.

## Board of Directors

| | |
|---|---|
| John S. Barry | President and Treasurer |
| Sam Crivello | Investor |
| Eugene H. DeFalco | Investor |
| Daniel W. Derbes | President, Allied-Signal International Inc. |
| Harlan F. Harmsen | Secretary; Attorney, Harmsen, Carpenter, Sidell & Olson, A Professional Corporation |
| Jack L. Heckel | President and Chief Operating Officer, Gen Corp. |
| Margaret L. Roulette | Investor |
| C. Fredrick Sehnert | President and Chief Executive Officer, Wavetek Corp. |
| Edward J. Walsh | President, The Sparta Group Ltd. |

## Officers

| | |
|---|---|
| John S. Barry | President and Treasurer |
| Gerald C. Schleif | Executive Vice President |
| Paul A. Thompson | Vice President-Sales |
| Harlan F. Harmsen | Secretary |
| Robert Gal | Assistant Secretary |

**General Counsel**
Harmsen, Carpenter, Sidell &
Olson, A Professional Corporation

**Independent Accountants**
Price Waterhouse
San Diego, California

**Transfer Agent & Registrar**
California First Bank
8155 Mercury Court
San Diego, California 92112

**Corporate Office**
1061 Cudahy Place
San Diego, California 92110
619/275-1400

**Annual Meeting**
2:00 PM, December 1, 1988
Mission Room
Mission Valley Inn
875 Hotel Circle South
San Diego, California 92108

**Subsidiaries**
WD-40 Products (Canada) Ltd.
WD-40 Company Ltd. (U.K.)
WD-40 Company (Australia) Pty Ltd.

**Listed**
Over the Counter
NASDAQ National Market System
Symbol WDFC

**Copy of Form 10-K**
Beneficial owners may obtain without charge a copy of WD-40 Company's annual report on Form 10-K filed with the Securities and Exchange Commission for 1988 by writing to the Secretary, WD-40 Company, 1061 Cudahy Place, San Diego, California 92110.

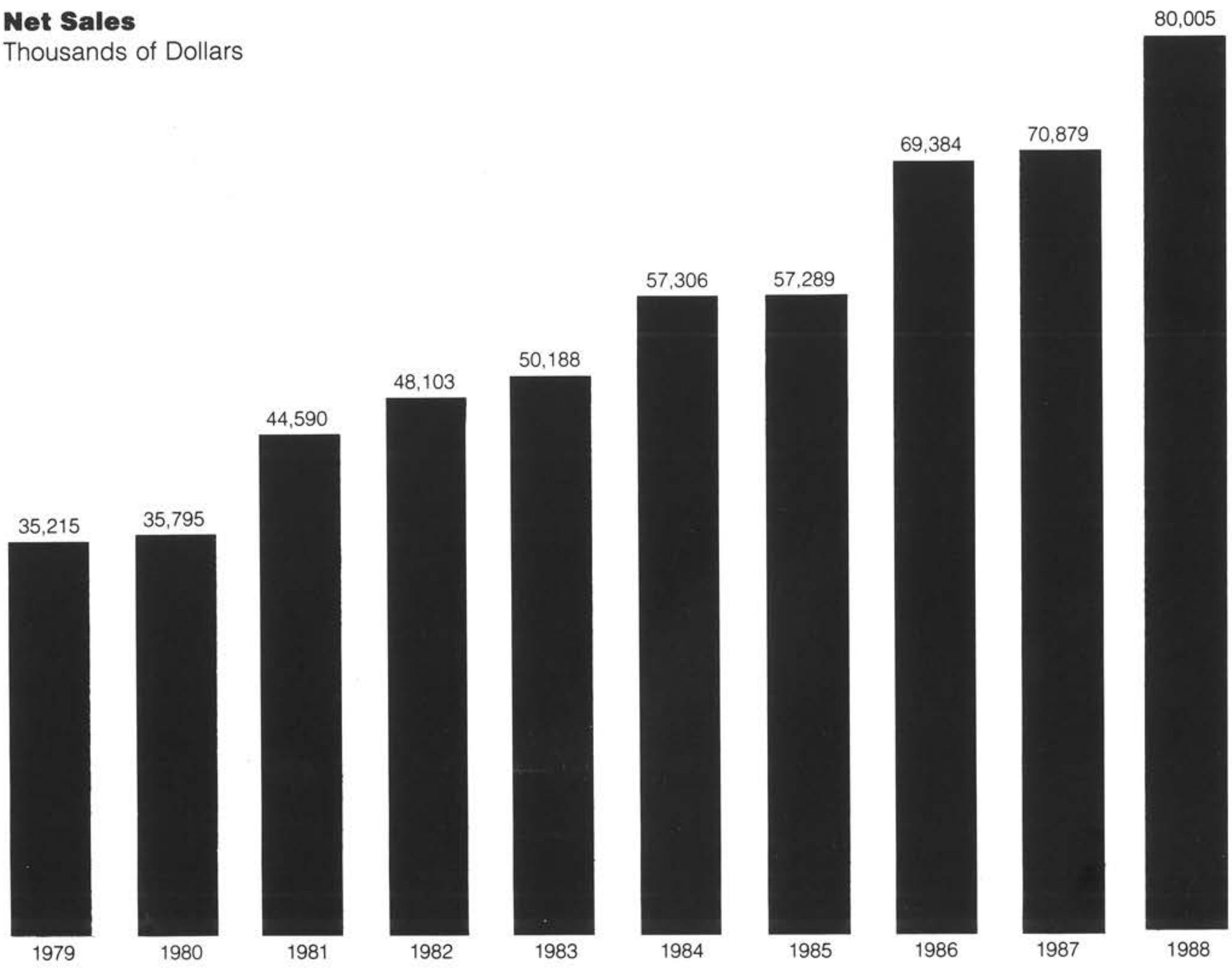
## **Ten Year Summary** (1)

| Fiscal Year Ended August 31 | 1979 | 1980 | 1981 |
|---|---|---|---|
| Net sales | $35,215,000 | $35,795,000 | $44,590,000 |
| Cost of products sold | 15,503,000 | 16,106,000 | 19,715,000 |
| Gross profit | 19,712,000 | 19,689,000 | 24,875,000 |
| Selling, advertising, general and administrative expenses | 9,154,000 | 9,519,000 | 10,203,000 |
| Interest, royalty and other income | 706,000 | 942,000 | 1,212,000 |
| Income before income taxes | 11,264,000 | 11,112,000 | 15,884,000 |
| Provision for income taxes | 5,761,000 | 5,602,000 | 8,040,000 |
| Net income | $ 5,503,000 | $ 5,510,000 | $ 7,844,000 |
| Earnings per share (2) | $ .74 | $ .74 | $1.06 |
| Average number of shares outstanding | 7,434,270 | 7,434,270 | 7,434,270 |
| Dividends per share (3) | $ .40 | $ .52 | $ .60 |
| Total assets | $13,352,000 | $13,296,000 | $20,284,000 |
| Number of employees | 35 | 36 | 36 |

(1) Includes the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated. See Management's Discussion and Analysis of the Last Three Fiscal Years of Operations on page 11.

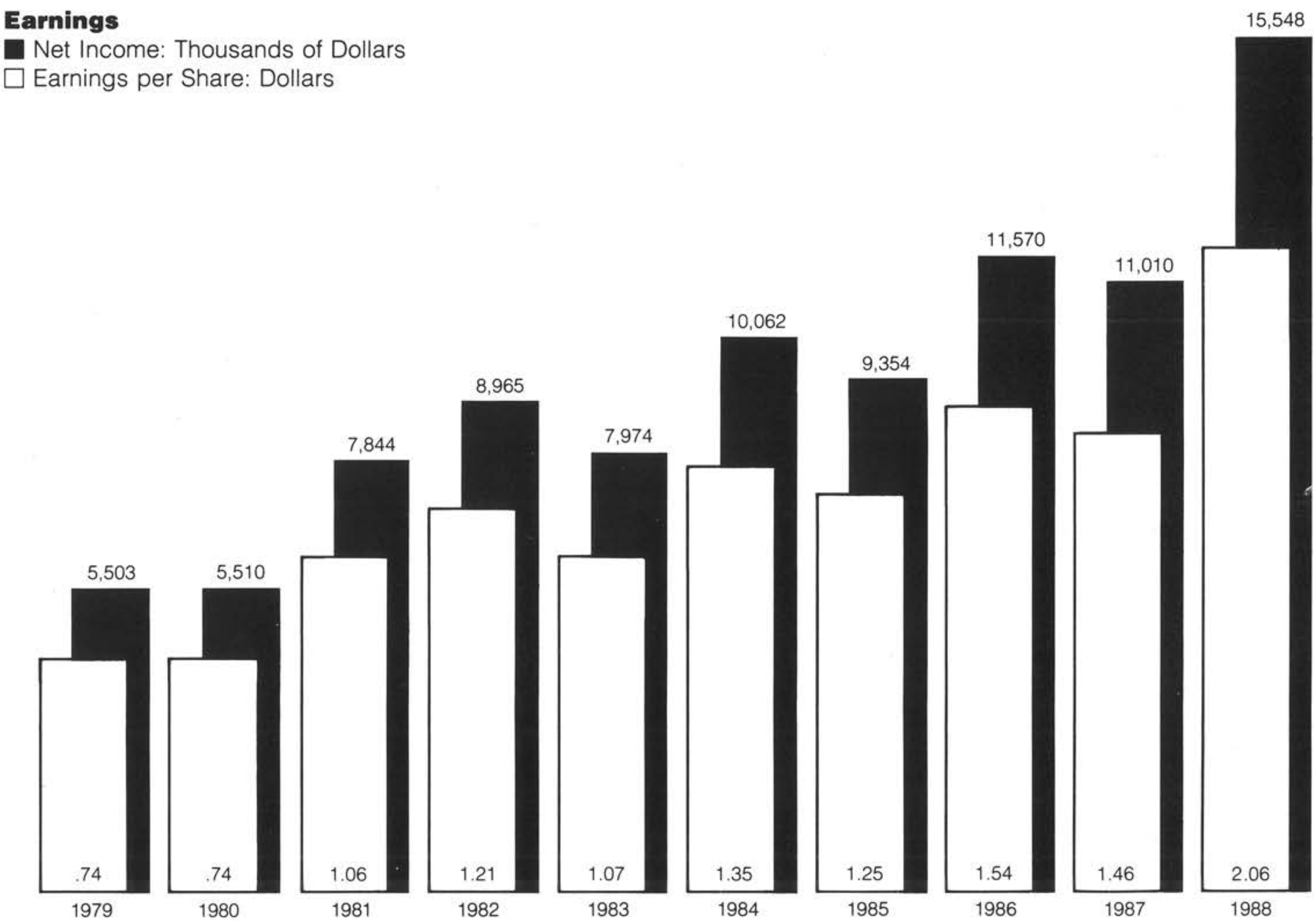
(2) Earnings per share have been computed based upon the weighted average number of shares of common stock outstanding during each year after giving retroactive effect to the two for one stock split in October 1978 and the three for one stock split in April 1983.

## **Net Sales**
Thousands of Dollars



| 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|---|
| $48,103,000 | $50,188,000 | $57,306,000 | $57,289,000 | $69,384,000 | $70,879,000 | $80,005,000 |
| 20,467,000 | 21,781,000 | 24,060,000 | 24,403,000 | 29,370,000 | 30,185,000 | 33,931,000 |
| 27,636,000 | 28,407,000 | 33,246,000 | 32,886,000 | 40,014,000 | 40,694,000 | 46,074,000 |
| 11,253,000 | 13,647,000 | 14,318,000 | 15,053,000 | 18,620,000 | 21,009,000 | 21,891,000 |
| 1,712,000 | 1,333,000 | 1,515,000 | 1,505,000 | 1,259,000 | 988,000 | 1,235,000 |
| 18,095,000 | 16,093,000 | 20,443,000 | 19,338,000 | 22,653,000 | 20,673,000 | 25,418,000 |
| 9,130,000 | 8,119,000 | 10,381,000 | 9,984,000 | 11,083,000 | 9,663,000 | 9,870,000 |
| $ 8,965,000 | $ 7,974,000 | $10,062,000 | $ 9,354,000 | $11,570,000 | 11,010,000 | 15,548,000 |
| $1.21 | $1.07 | $1.35 | $1.25 | $1.54 | $1.46 | $2.06 |
| 7,434,834 | 7,453,598 | 7,476,546 | 7,498,024 | 7,503,679 | 7,516,652 | 7,527,507 |
| $ .68 | $ .75 | $ .84 | $ .90 | $1.04 | $1.47 | $1.63 |
| $22,916,000 | $24,698,000 | $30,290,000 | $32,871,000 | $38,506,000 | $39,149,000 | $43,312,000 |
| 37 | 38 | 39 | 49 | 56 | 61 | 79 |

(3) The cash dividends paid per share have been retroactively restated to give effect to the October 1978 and April 1983 stock splits.



▲ Worldwide Corporate Headquarters

● U.S. Regional Offices

■ Subsidiary Headquarters

WD-40. Available in 110 countries around the world.